

20 years of rail liberalisation in Europe: key lessons and future prospects

Views of SNCF



SNCF
Pierre MESSULAM – 4th European Rail Transport Regulation Forum
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OVERVIEW

Why introduce competition?

Pillars of the European Strategy

Situations for the different markets

Conclusions



WHY INTRODUCE COMPETITION? WHAT EXPECTED BENEFITS?

- **Bring transparency in relationships between historical monopolies, the management of the infrastructure, public stakeholders and customers.**
- **Overcome difficulties involved in reforming State Monopolies: greater accountability, management changes, better governance.**
- **Higher pressures on costs, incentives to enhance services, give room to reduce taxpayers and/or users contribution and/or enhance quality and service provided, reform social frameworks.**
- **Stimulate business and technical innovation.**
- **Expand the overall market, create genuine transborder markets, and promote growth in international traffic.**



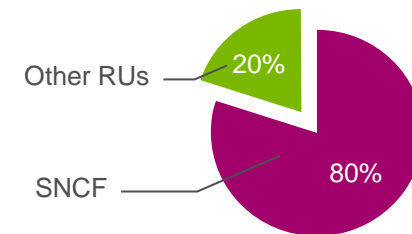
PILLARS OF THE STRATEGY OF THE EUROPEAN COMMISSION

- Foster progressive opening of rail markets.**
- Increase interoperability.**
- Introduce a distinction between operators of rail-services and managers of the infrastructure, stations and service facilities.**
- Impose separate accounts between infrastructure monopolies and railway undertakings and between commercial and public service activities.**
- Set up control bodies and mechanisms to guarantee equal access and non-discrimination between different operators.**

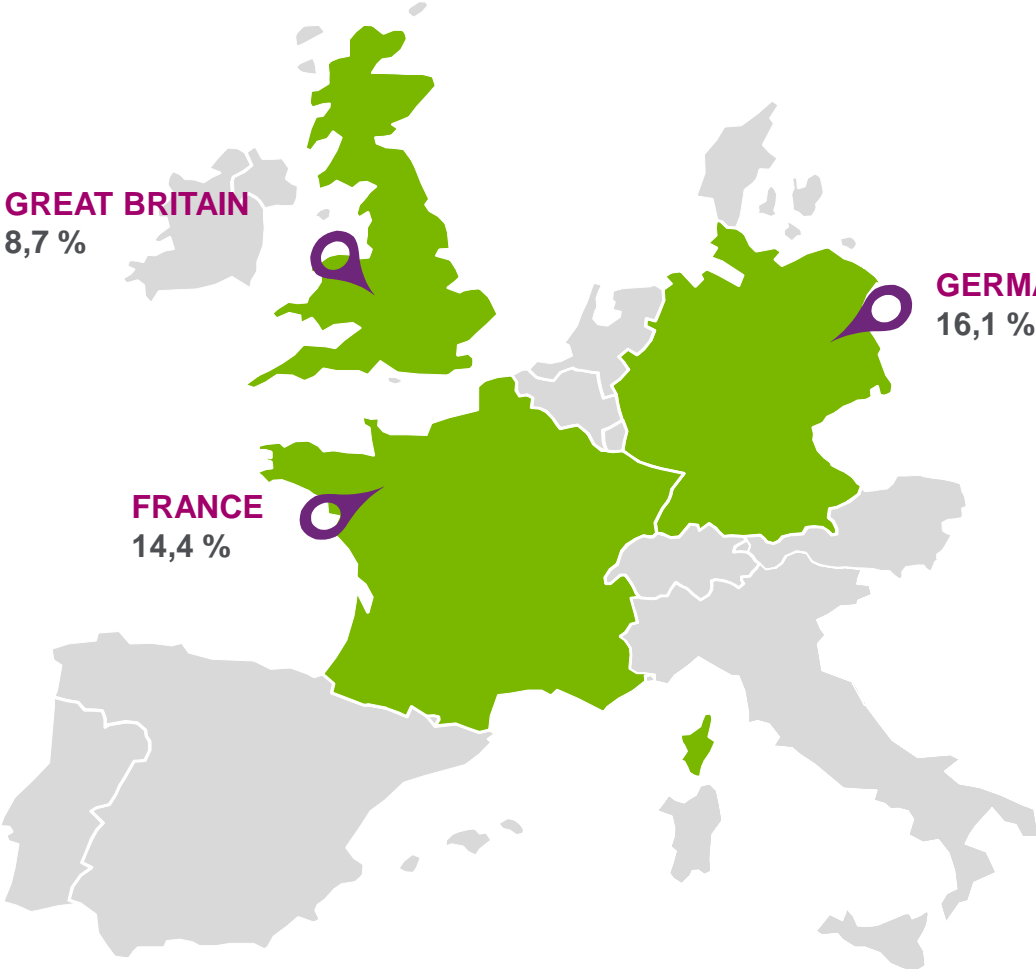
FREIGHT: IS COMPETITION A DRIVER OF MODAL REPORT?

- **Comparison of Rail Freight Markets in UK, Germany and France (following slides)**
- **Competition and the development and the dynamic of the market are two different aspects.**
- **Freight is a sector of rail industry different from passenger transport:**
 - **Rolling stock is interoperable on an international level and there is a market for used rolling stock. Freight locomotives are less specific. The liquidity of assets is thus stronger.**
 - **To be competitive, an offer does not have to start with a high frequency.**
 - **Market entrance is easier due to lower levels of investment.**

FREIGHT MARKET IN FRANCE
2010



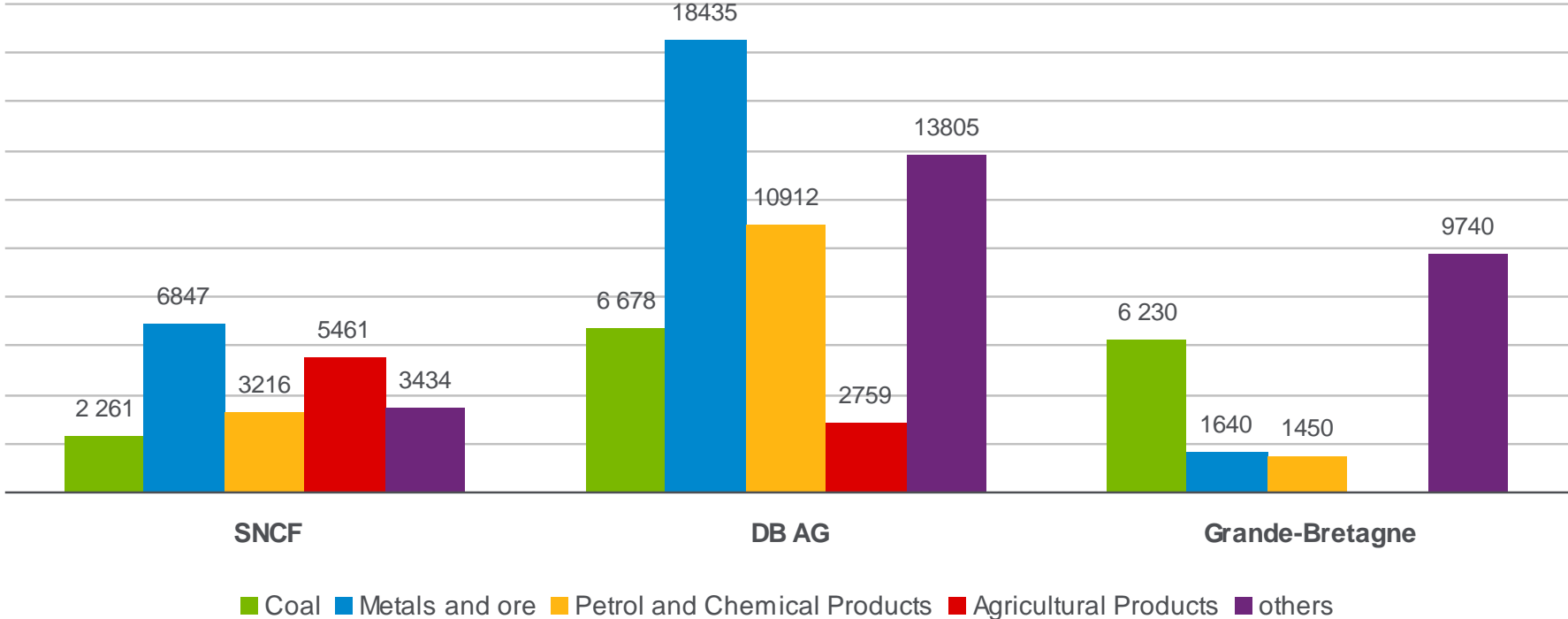
MODAL SHARE OF RAIL FREIGHT



The modal share of rail freight is indicated in percentages of the entire transport volume in tonnes x kilometres (figures 2009).

BREAKDOWN OF GOODS TRANSPORTED BY RAIL

Comparaison of tonnes x km transported



Sources : UIC et ORR - 2009



COMPARISON OF RAIL FREIGHT MARKETS : France, Germany, Great-Britain

➤ The type of goods transported by rail is closely linked to the industrial tissue of the individual country and its evolution:

- Coal represents thus 43 % of the tonnes of goods transported by rail in Great-Britain, compared to 15% in Germany and only 10% in France.
- Chemical products and petrol represent 21% of the tonnes x kilometres transported in Germany, 15 % in France and 8% in Great Britain.
- In addition, rail freight in France is characterised by a high volume of agricultural products (¼ of the traffic of FRET SNCF, 26 % of tonnes x km and 22% of loaded tonnes).

➤ On the contrary, the part of intermodal transport, mainly listed in the category « others », is fairly marginal in the traffic of FRET SNCF (16% of tonnes x km) compared to 26 % for DB AG in Germany and up to 36 % in Great Britain.

Industrial structure continues to have a strong impact on the modal share of freight transported by rail. France, a more rural country, seems to be less favoured than Germany or Great-Britain, countries that benefit still from an important volume of goods suitable for rail transport and with high value added.

The intermodal transport, which represents today a major issue for the future of rail freight still plays a marginal role in France.

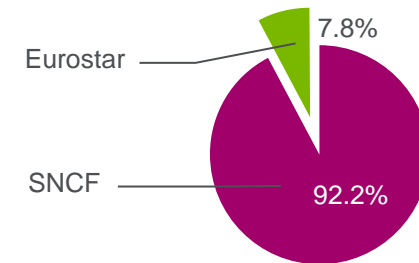
LONG DISTANCE PASSENGER TRAFFIC: A SECTOR CONDITIONED BY DEMOGRAPHY THAT NECESSITATES HIGH LEVELS OF INVESTMENTS

➤ Long distance rail services

- In contrast to other liberalised sectors such as telecoms, no strong growth of the market is expected. Traffic volumes depend on demographic conditions (Cf. following slides).
- Strong pressure of inter-modal competition such as air and road traffic.
- Competition on services and price: low cost vs. premium offers.
- Frequency of the offer is a key factor to make it attractive commercially and to have a chance to amortise investments.
- A high level of investments in rolling stock, maintenance facilities is needed to launch an offer.

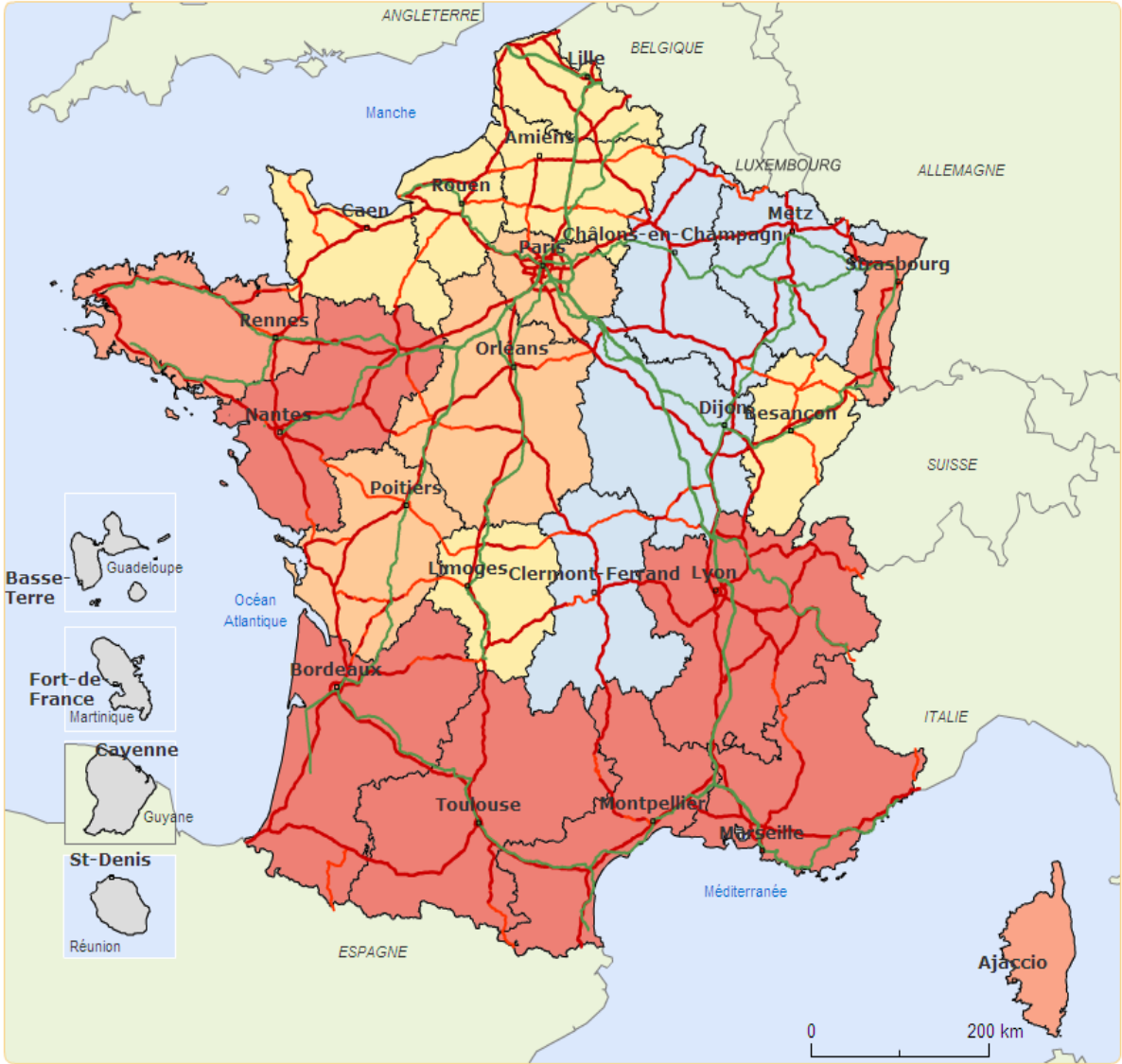
➤ Competition for long distance passenger transport under open access could concern only a limited number of lines.

PASSENGER TRAFFIC ON MAIN-LINE ROUTES IN FRANCE
2010



PASSENGER TRANSPORT GROWTH IS ALSO CONDITIONED BY DEMOGRAPHY

France par Région



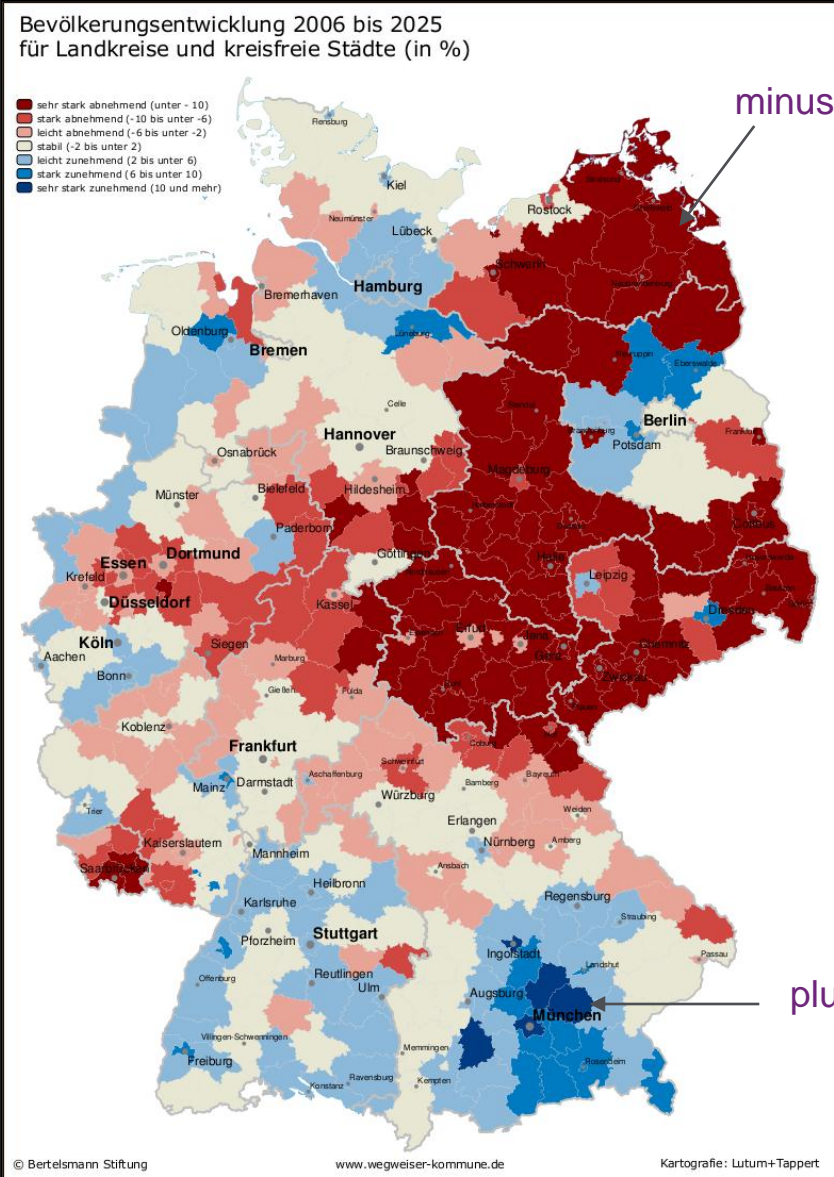
Evolution de population entre 2005 et 2030 (en %)

- 15 à 32.2 (6)
- 10 à 15 (3)
- 5 à 10 (3)
- 0 à 5 (6)
- 5,46 à 0 (4)
- N/A (4)

source : INSEE (projections) (2005-2030)



PASSENGER TRANSPORT GROWTH IS ALSO CONDITIONED BY DEMOGRAPHY



minus 10% and more

Demographic
development Germany:
2006 to 2025

plus 10% and more



REGIONAL PASSENGER TRAFFIC: UNDER FRANCHISE REGIME

➤ Regional Traffic

- As this type of traffic is seldom profitable, it will have to be franchised under public service contracts.
 - Different solutions are conceivable: an asset light model, in which rolling stock, maintenance and control and command infrastructure are transferred from operator to operator or a model in which the railway undertaking provides the rolling stock or a model in which the railway undertaking provides the rolling stock and builds the necessary facilities.
 - The second and third model necessitate long term contracts (over 10 / 15 years) in order to allow railway undertakings to have a return on their investments.
 - In addition, under public service contracts, the characteristics of the offer of transport, the timetable the design and characteristics of the rolling stock, the station equipment, the tariff system ... are defined to great extent by the public transport authority. According to the model, the PTA might even acquire and finance rolling stock.
- Under these conditions, business innovation and competition will only be very limited. Competition will essentially have the role of being a sting that incites the incumbent to become more effective.
- How to define franchises that leave sufficient space for innovation by railway undertakings?
- Special issues linked to mass transit: coordination between the railway undertaking and the infrastructure manager in particularly dense network.

FUTURE PROSPECTS

- **Franchises will play an important role in regional passenger rail markets. Issues: rolling stock financing and availability.**
- **A major issue is how to define franchises to leave sufficient room for business innovation and real competition in order to take full advantages of competition.**
- **Capacity issues: need for coordination between the infrastructure manager and railway undertakings in dense areas of the network.**
- **Financial issues: due to tight public funding infrastructure development and public transport offer will be under heavy financial pressure.**
- **Consolidation of the freight market already ongoing.**
- **In long distance passenger markets, given the market size and the necessary investments, competition will be limited:**
 - **to lines where the market volume is sufficient for two or three operators**
 - **and to niche markets, such as night trains and specific routes where competition ends with one single operator remaining in the market.**

VIEWS OF SNCF

- **Competition is a means of implementing transport policy, not an end in itself.**
- **SNCF is convinced that rail industry needs competition to foster its transformation and supports market opening and competition.**
- **Rail markets are tailored in several segments (Freight, mass Transit, regional, passenger long distance) which have different economic models.**
- **A first issue of competition is about capacity allocation between different segments. This is a transport policy issue and not an infrastructure manager issue only.**
- **The organisation of competition has to take into account specific geographic and demographic conditions, which may vary according to countries and regions.**
- **Opening rail markets to competition will not deliver benefits unless the system is in good technical condition, able to cope with present and future capacity issues, and benefits from sound public funding for infrastructure.**
- **A rail system demands a system integrator, in particular in dense areas, we all need effective technical and operational performance, efficient organisation for planning and operations. In addition, rail industry needs to maintain strategic rail skills in Europe facing overseas competition.**

THANK YOU FOR YOUR ATTENTION

QUESTIONS AND DISCUSSION

